

Message Text

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ACTION OPIC-06

INFO OCT-01 NEA-10 ISO-00 AID-05 EB-07 COME-00 TRSE-00

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2070

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJ: OPIC LOCAL CURRENCY LOANS

REF: A. STATE 214390; B. ISLAMABAD 8405; C. KARACHI 2002

1. IN AN EFFORT TO SORT OUT THE CONFLICTING SIGNALS WE HAVE RECEIVED FROM REFTELS, ECON/COM COUNSELOR HAS BEEN IN TOUCH WITH FINANCE MINISTRY. ACTING EXTERNAL FINANCE JOINT SECRETARY CONFIRMS THAT KAZI GAVE INSTRUCTIONS TO DRAFT A LETTER INDICATING "GENERAL APPROVAL" OF TWO LOANS (REF B). FINMIN HAD, HOWEVER, BEEN TOLD TO SEND THIS LETTER TO THE STATE BANK IN KARACHI FOR ACTION. IN VIEW OF APPARENT OPPOSITION OF STATE BANK GOVERNOR (REF C), EMB AND CONGEN KARACHI ARE WORKING OUT THE MOST APPROPRIATE WAY TO FIND OUT WHETHER THE NOW FAVORABLE POSITION OF FINMIN WILL CHANGE STATE BANK GOVERNOR'S MIND. IN ANY CASE, THE SEPTEMBER 20 DEADLINE FOR INCLUSION IN OPIC'S ANNUAL REPORT CAN CLEARLY NOT BE MET.

2. WE ARE SOMEWHAT BAFFLED BY THE PARTICULAR OBJECTIONS CITED BY HWE STATE BANK GOVERNOR (REF C). AS FAR AS THE CREDIT CEILING IS CONCERNED, IT IS TRUE THAT MAKING THESE LOANS WOULD INCREASE THE AMOUNT OF CREDIT OUTSTANDING IN PAKISTAN, BUT GIVEN THE PRODUCTIVE NATURE OF THE LAONS, LIMITED OFFICIAL USE

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IT IS HARD TO CONCLUDE THAT THEY WOULD NECESSARILY BE

INFLATIONARY. MOREOVER, IF THE STATE BANK WERE SO INCLINED, IT COULD VERY EASILY MAKE ADMINISTRATIVE ADJUSTMENTS TO ACCOMMODATE THEM WITHIN THE CREDIT CEILING.

3. THE PROBLEM OF THE INTEREST RATE IS PERHAPS MORE COMPLICATED. THESE LOANS ARE AT A SLIGHTLY LOWER INTEREST RATE THATN IS COMMON WITH COMMERCIAL LOANS IN PAKISTAN. TO OUR KNOWLEDGE, NO ATTEMPT HAS EVER BEEN MADE FROM EITHER THE US OR THE PAKISTAN SIDE TO NEGOTIATE AN INTEREST RATE MORE STAISFACTORY TO THE GOP, IF THIS REALLY IS AN IMPORTANT ELEMENT IN THE GOP'S OBJECTIONS.

4. THE THIRD ISSUE CITED BY THE STATE BANK GOVERNOR, THAT OF "INCREASING MARKETS FOR THE SALE OF US AGRI-CULTURAL PRODUCTS", STRICKES US AS A COMPLETE RED HERRING. WHEN WE TAKE THIS MATTER UP AGAIN WITH THE STATE BANK, WE WILL OF COURSE POINT OUR THAT THIS IS NOT AN ABSOLUTE REQUIREMENT FOR COOLEY LOANS, BUT WE CONTINUE TO SUSPECT THAT THIS AND SIMILAR OBJECTIONS SERVE ONLY TO MASQUERADE WHATEVER THEIR FUNDAMENTAL OBJECTION IS.
BYROADE

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